

# Field Bulletin

Reissued September 4, 2009



Replaces Rules & Practices No. 90-44

## Replacement of Life Insurance and Annuities - California

California Insurance Code Section 1050913 governs the replacement of individual Life Insurance and Annuity policies. (A copy of this statute is available upon request.) "Replacement" as defined in this statute is reproduced on the reverse side of this bulletin. In order to comply with this statute, the following procedure must be followed.

An agent must, in connection with each application:

1. Obtain a statement signed by the applicant as to whether replacement of existing life insurance or annuity contracts is involved in the transaction and submit such statement to the Company. (Question appears on Applications forms.)
2. Submit to the Company the agent's signed statement as to whether the agent knows replacement is or may be involved. (Agent's Certificate.)

If replacement is involved, the agent must, in addition to the above:

1. Present to the applicant, no later than at the time of taking the application, a "Notice Regarding Replacement - California," in the form attached. The Notice shall be signed by both the applicant and the agent and the original left with the applicant.
2. Obtain with the application a list of all existing life insurance and annuity contracts to be replaced, identified by name of insurer, insured and contract number. If a contract number has not been assigned by the existing insurer, alternative identification such as the application or receipt number, shall be listed. This information must be shown on the application.
3. Leave with the applicant a copy of written or printed communications (sales proposals) used for presentation to the applicant.
4. Submit to the Company with the application a copy of the signed Replacement Notice.

For Internal Replacements, the agent must:

5. Provide the applicant with a written statement containing information regarding premium, cash values, death benefits and outstanding indebtedness, dividends and dividend accumulations, if any, for the existing policy, both immediately before and after replacement, and for the proposed life insurance or annuity. This is in addition to complying with items 1-4 above.

Additional copies of this form may be obtained from your General Agent. General Agents should order a supply through routine supply channels.

If written or printed communications are used in an attempt to conserve existing business, the originals of any materials used must be left with the applicant.

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Attachment: 0004808XX  
NO APM REFERENCE

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### **10509.2.**

“Replacement” means any transaction in which new life insurance or a new annuity is to be purchased, and it is known or should be known to the proposing agent or broker, or to the proposing insurer if there is no agent, that by reason of that transaction, the existing life insurance or annuity has been or is to be any of the following:

- (a) Lapsed, forfeited, surrendered, or otherwise terminated.
- (b) Converted to reduced paid-up insurance, continued as extended term insurance, or otherwise reduced in value by the use of non-forfeiture benefits or other policy values.
- (c) Amended so as to effect either a reduction in benefits or in the term for which coverage would otherwise remain in force or for which benefits would be paid.
- (d) Reissued with any reduction in cash value.
- (e) Pledged as collateral or subjected to borrowing, whether in a single loan or under a schedule of borrowing over a period of time for amounts in the aggregate exceeding 25 percent of the loan value set forth in the policy.

### **10509.3.**

(a) Unless otherwise specifically included, this article does not apply to the following:

- (1) Credit life insurance.
- (2) Group life insurance or group annuities.
- (3) An application to the existing insurer that issued the existing life insurance when a contractual change or a conversion privilege is being exercised, or when a term conversion privilege is exercised among corporate affiliates.
- (4) Proposed life insurance that is to replace life insurance under a binding or conditional receipt issued by the same insurer.
- (5) Transactions where the replacing insurer and the existing insurer are the same; provided, however, that agents proposing replacement shall:
  - (A) Comply with the requirements of subdivisions (a) and (d) of Section 10509.4.
  - (B) Provide and leave with the applicant a written statement containing information relating to premiums, cash values, death benefits, and outstanding indebtedness, and dividends and dividend accumulations, if any, for the existing policy, both immediately before and after replacement, and for the proposed life insurance or annuity.
- (b) Registered contracts shall be exempt from the requirements of paragraphs (2) and (3) of subdivision (b) of Section 10509.6 requiring provision of policy summary or ledger statement information; however, premium or contract contribution amounts and identification of the appropriate prospectus or offering circular shall be required in lieu thereof.
- (c) “Term conversion privilege” means an option afforded by contract to certain holders of term life insurance policies that permits the policy to be converted into permanent insurance, including whole life insurance, universal life insurance, or variable life insurance, regardless of the insured’s physical condition and without a medical examination. The holder of a term life insurance policy with a term conversion privilege shall not be denied coverage or charged an additional premium for any health problems and premiums for the permanent policy shall be based on the same underwriting class as the term policy, regardless of any changes of health since the term policy was issued.
- (d) “Corporate affiliate” means the same as “affiliate” as defined in Section 1215.